

Creativity Explored and Subsidiary
Consolidated Financial Statements
June 30, 2022 and 2021

ERNST WINTER & ASSOCIATES LLP
Certified Public Accountants

Creativity Explored

June 30, 2022 and 2021

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Independent Auditor's Report

To the Board of Directors of
Creativity Explored and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of Creativity Explored (a nonprofit corporation) and Subsidiary (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The consolidated financial statements of the Organization as of June 30, 2021 were audited by other auditors, whose report dated February 10, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating statements of activities and change in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young  *Associates LLP*

Walnut Creek, California
March 13, 2023

Creativity Explored and Subsidiary
Consolidated Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
ASSETS		
Current assets		
Cash	\$ 181,318	\$ 455,415
Investments	1,454,217	1,529,788
Accounts receivable	123,885	192,312
Grant receivable	726,263	-
Contributions receivable	58,923	41,676
Prepaid expenses and other current assets	67,151	55,457
Inventory	22,392	34,668
Total current assets	2,634,149	2,309,316
Beneficial interest in use of property	153,379	248,916
Contributions receivable, net of current portion	-	35,000
Property and equipment, net	162,769	196,264
Intangible asset, net	3,542	6,042
Deposit	21,336	21,336
TOTAL ASSETS	\$ 2,975,175	\$ 2,816,874
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 191,877	\$ 164,076
Deferred revenue	5,602	6,892
Deferred rent	5,552	10,164
Note payable	-	329,647
TOTAL LIABILITIES	203,031	510,779
NET ASSETS		
Net assets without donor restrictions	2,583,765	1,843,011
Net assets with donor restrictions	188,379	463,084
TOTAL NET ASSETS	2,772,144	2,306,095
TOTAL LIABILITIES AND NET ASSETS	\$ 2,975,175	\$ 2,816,874

See independent auditor's report and accompanying notes.

Creativity Explored and Subsidiary
Consolidated Statements of Activities
For the Years Ended June 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND PROGRAM REVENUE						
Art sales, net	\$ 153,599	\$ -	\$ 153,599	\$ 132,486	\$ -	\$ 132,486
Royalty income, net	27,173	-	27,173	45,617	-	45,617
Foundation grants	125,501	-	125,501	147,243	46,758	194,001
Government grants	88,848	-	88,848	69,394	72,411	141,805
Government contract	1,500,617	-	1,500,617	1,537,016	-	1,537,016
Corporate contributions	57,235	-	57,235	41,068	-	41,068
Individual contributions	322,781	-	322,781	215,812	-	215,812
Special events, net	57,662	-	57,662	78,060	-	78,060
In-kind contributions	59,141	-	59,141	79,480	-	79,480
Net assets released from restrictions	274,705	(274,705)	-	309,192	(309,192)	-
TOTAL SUPPORT AND PROGRAM REVENUE	2,667,262	(274,705)	2,392,557	2,655,368	(190,023)	2,465,345
EXPENSES						
Program services	2,173,769	-	2,173,769	2,089,648	-	2,089,648
Management and general	257,871	-	257,871	196,697	-	196,697
Fundraising	441,399	-	441,399	336,945	-	336,945
TOTAL EXPENSES	2,873,039	-	2,873,039	2,623,290	-	2,623,290
OPERATING (LOSS) INCOME	(205,777)	(274,705)	(480,482)	32,078	(190,023)	(157,945)
OTHER INCOME						
Other income	13,192	-	13,192	526	-	526
Grant income - Employee retention credit	726,263	-	726,263	-	-	-
Investment (loss) income	(123,474)	-	(123,474)	40,369	-	40,369
Gain on note forgiveness	330,550	-	330,550	341,900	-	341,900
TOTAL OTHER INCOME	946,531	-	946,531	382,795	-	382,795
CHANGE IN NET ASSETS	740,754	(274,705)	466,049	414,873	(190,023)	224,850
NET ASSETS - BEGINNING OF YEAR	1,843,011	463,084	2,306,095	1,428,138	653,107	2,081,245
NET ASSETS - END OF YEAR	\$ 2,583,765	\$ 188,379	\$ 2,772,144	1,843,011	463,084	2,306,095

See independent auditor's report and accompanying notes.

**Creativity Explored and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022**

	Program Services			Supporting Services			2022 Total Expenses
	Creativity Explored Programs	Exhibition Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 1,203,547	\$ 395,699	\$ 1,599,246	\$ 129,420	\$ 218,098	\$ 347,518	\$ 1,946,764
Occupancy	161,781	47,708	209,489	21,407	136,967	158,374	367,863
Exhibits	1,923	94,492	96,415	-	106,696	106,696	203,111
Artists	28,758	128,016	156,774	201	201	402	157,176
Payroll taxes	80,196	26,363	106,559	8,376	14,610	22,986	129,545
Professional services	12,207	7,035	19,242	51,441	2,055	53,496	72,738
Telecommunications	16,515	23,555	40,070	15,096	9,935	25,031	65,101
Donated services	-	-	-	-	44,206	44,206	44,206
Office	11,664	22,063	33,727	3,680	2,805	6,485	40,212
Depreciation and amortization	22,135	7,442	29,577	2,393	4,026	6,419	35,996
Miscellaneous	30	448	478	21,348	6	21,354	21,832
Postage and delivery	1,652	6,283	7,935	1,414	6,412	7,826	15,761
Equipment	5,769	4,662	10,431	1,741	988	2,729	13,160
Insurance	7,014	2,481	9,495	695	1,152	1,847	11,342
Travel	925	1,398	2,323	860	139	999	3,322
Total expenses by function	<u>1,554,116</u>	<u>767,645</u>	<u>2,321,761</u>	<u>258,072</u>	<u>548,296</u>	<u>806,368</u>	<u>3,128,129</u>
Less expense included with public support and program revenue on the consolidated statement of activities							
Art sales cost of goods sold	-	(146,475)	(146,475)	(201)	(201)	(402)	(146,877)
Special event expenses	-	(1,517)	(1,517)	-	(106,696)	(106,696)	(108,213)
Total Expenses	<u>\$ 1,554,116</u>	<u>\$ 619,653</u>	<u>\$ 2,173,769</u>	<u>\$ 257,871</u>	<u>\$ 441,399</u>	<u>\$ 699,270</u>	<u>\$ 2,873,039</u>

See independent auditor's report and accompanying notes.

**Creativity Explored and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2021**

	Program Services			Supporting Services			2021 Total Expenses
	Creativity Explored Programs	Exhibition Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 1,219,538	\$ 408,785	\$ 1,628,323	\$ 94,485	\$ 251,498	\$ 345,983	\$ 1,974,306
Occupancy	214,203	60,263	274,466	14,411	36,112	50,523	324,989
Artists	30,718	86,264	116,982	350	245	595	117,577
Exhibits	4,706	78,058	82,764	-	30,460	30,460	113,224
Professional services	32,725	10,953	43,678	59,185	9,810	68,995	112,673
Miscellaneous	8,342	6,766	15,108	25,764	1,871	27,635	42,743
Office	20,220	11,507	31,727	1,351	9,012	10,363	42,090
Depreciation and amortization	16,334	6,023	22,357	1,246	3,448	4,694	27,051
Donated services	-	-	-	-	24,096	24,096	24,096
Travel	2,914	604	3,518	100	142	242	3,760
Equipment	2,334	754	3,088	155	447	602	3,690
Total expenses by function	1,552,034	669,977	2,222,011	197,047	367,141	564,188	2,786,199
Less expense included with public support and program revenue on the consolidated statement of activities							
Art sales cost of goods sold	(22,540)	(109,823)	(132,363)	(350)	(236)	(586)	(132,949)
Special event expenses	-	-	-	-	(29,960)	(29,960)	(29,960)
Total Expenses	\$ 1,529,494	\$ 560,154	\$ 2,089,648	\$ 196,697	\$ 336,945	\$ 533,642	\$ 2,623,290

See independent auditor's report and accompanying notes.

Creativity Explored
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 466,051	\$ 224,850
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	35,996	27,052
Gain on note forgiveness	(329,647)	(341,900)
Change in beneficial interest in use of property	95,537	90,129
Net realized and unrealized loss (gain) on investment	172,545	(24,308)
Changes in operating assets and liabilities:		
Accounts receivable	103,427	109,591
Contributions receivable	(17,247)	-
Grants receivable	(726,263)	-
Prepaid expenses and other current assets	(11,694)	(4,417)
Inventory	12,276	(3,481)
Accounts payable and accrued expenses	27,801	41,342
Deferred revenue	(1,290)	-
Deferred rent	(4,612)	88
Net Cash (Used in) Provided by Operating Activities	(177,120)	118,946
Cash Flows from Investing Activities		
Purchases of investments	(705,122)	(360,016)
Proceeds from sales of investments	608,145	9,616
Purchase of property and equipment	-	(40,479)
Purchase of intangible asset	-	(7,500)
Change of deposit	-	1,753
Net Cash Used in Investing Activities	(96,977)	(396,626)
Cash Flows from Financing Activities		
Proceeds from note payable	-	329,647
Net Cash Provided by Financing Activities	-	329,647
Net (Decrease) Increase in Cash	(274,097)	51,967
Cash - Beginning of Year	455,415	403,448
Cash - End of Year	\$ 181,318	\$ 455,415

See independent auditor's report and accompanying notes.

Creativity Explored and Subsidiary

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

1. ORGANIZATION

Creativity Explored is a nonprofit organization that was formed in 1982 under the laws of the State of California and is located in San Francisco, California. Creativity Explored's mission is to advance the value and diversity of artistic expression by providing artists with developmental disabilities the means to create, exhibit, and sell their art.

Creativity Explored develops and implements an environment where artists with developmental disabilities can work and have a creative outlet. Creativity Explored accomplishes this through its two art center locations where artists can work and receive instruction.

Creativity Explored Licensing, LLC (the "Subsidiary") was incorporated in July 2014 as a single member limited liability company for the purposes of engaging in the business of owning, controlling, licensing, selling, promoting, and monetizing artwork of right thereon. The Subsidiary is a wholly owned by Creativity Explored.

Creativity Explored maintains the following programs:

Creativity Explored Programs (Studio and Community Arts):

Creativity Explored provides studio artists with a workspace, instruction, and opportunities to explore a wide variety of media. Studio artists choose the media and subject matter, and trained professional artists are available to assist each studio artist in exploring the creative process. Printmaking, painting, drawing, sculpture, ceramics, and fabric art are included in a program designed to meet the needs, choices, and preferences of each studio artist.

The Organization provides studio artists with opportunities to visit Bay Area museums, galleries, and local artists' studios. Groups of four studio artists are accompanied by an art instructor to experience and participate in the Bay Area arts community.

Exhibition Programs (Exhibitions, Art Services and Licensing):

Creativity Explored professionally exhibits and markets artwork created by the artists working in its studios. Exhibitions occur on a regular basis in an on-site gallery, off-site in private and public galleries, and in corporate and community spaces throughout the Bay Area. Revenue generated by these program activities is shared equally between Creativity Explored and the studio artist. When Creativity Explored licenses art to be reproduced on products manufactured and sold by others, royalty income is shared 60%/40% between Creativity Explored and the artist.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The accompanying consolidated financial statements include the accounts and activities of Creativity Explored and the Subsidiary (collectively, the "Organization"). All significant inter-entity accounts and transactions have been eliminated.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared using the accrual basis of accounting, which involves the recognition of revenue and gains when earned and expenses and losses when incurred.

Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. The Organization currently has no board designated net assets.

Creativity Explored and Subsidiary

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Net assets with donor restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2022 and 2021.

Investments

The Organization's investments consist of mutual funds and securities reported at fair value. Mutual fund and securities are valued based on quoted market prices. The Organization invested in certificates of deposits in 2021, which were valued based on market value.

Fair Value Measurements

The Organization considers the use of market-based information over entity specific information in valuing its investments, using a three-level hierarchy for fair value measurements, based on the nature of inputs used in the valuation of the financial assets as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- *Level 1* inputs to the valuation methodology – quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* inputs to the valuation methodology – quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.
- *Level 3* inputs to the valuation methodology – unobservable and significant to the fair value measurement.

Inventory

Inventory consists primarily of books, note cards, and tee-shirts and is stated at lower of cost or net realizable value, using the first-in, first-out method.

Accounts Receivable

Accounts receivable consists of amounts billed by the Organization to the Golden Gate Regional Center (GGRC). Management monitors these receivables, and based on its knowledge, receivables are written off when deemed necessary. An allowance for doubtful accounts is estimated by management that is based on a review of outstanding receivable, historical collection information and existing economic conditions. The Organization believes no allowance for doubtful accounts is necessary as of the June 30, 2022 and 2021.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or fair value, if donated. The Organization capitalizes assets greater than \$1,500 at the time of purchase. Depreciation is provided over the estimated useful lives of respective assets, normally three to five years, using the straight-line method of depreciation. Leasehold improvements are amortized over the shorter of the assets' estimated useful lives or the remaining term of the lease.

Creativity Explored and Subsidiary

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets

Intangible assets consist of \$7,500 of website development costs. The Organization accounts for website development costs in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350-50, *Website Development Costs*. As such, the Organization expenses all costs incurred relating to the planning and post-implementation phases of development, as well as costs incurred related to content training and maintenance. Costs incurred in excess of \$1,500 in the development phase are subject to capitalization and amortization over an estimated useful life, generally three years. Amortization expense for the years ended June 30, 2022 and 2021, was \$2,500 and \$1,458, respectively, and is included in depreciation and amortization in the consolidated statements of functional expenses.

Impairment of Long-Lived Assets

The Organization reviews its property and equipment for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. When it is determined the carrying value of long-lived assets may not be recoverable, the Organization measures any impairment based on projected discounted cash flows using a discount rate commensurate with the risk inherent in its current operating model. The Organization has not recorded an impairment of its long-lived assets as a result of this analysis through June 30, 2022.

Deferred Rent

The Organization records rental expense related to its long-term operating lease commitments, which contain scheduled increases, on a straight-line basis. The Organization reports the difference between rent payments and rent expense as deferred rent in the consolidated statement of financial position.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates and may have impact on future periods.

Income Tax Status

Creativity Explored is exempt from Federal and state income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Internal Revenue Code and similar code section of the California Revenue and Taxation Code, is subject to income tax.

The Subsidiary is a pass-through entity for income tax reporting purposes and, accordingly, does not pay tax on its income. Instead, income or loss is reported on the returns of Creativity Explored. The Subsidiary is, however, subject to the annual California LLC tax of \$800 and a California LLC fee based on gross revenue.

Each year management considers whether any material tax positions the Organization has taken are more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these consolidated financial statements.

Creativity Explored and Subsidiary

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (continued)

The Organization's federal returns could be subject to examination by federal taxing authorities generally for 3 years after they are filed. The Organization's state returns could be subject to examination by state taxing authorities generally for four years after they are filed. The Organization is no longer subject to tax examinations by tax authorities for years before 2017.

Reclassifications

Certain balances have been reclassified to conform to the current year's presentation. Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications have no impact on previously reported net assets.

In-Kind Contributions

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

In-kind contributions consist of \$43,406 of donated services, \$800 of donated goods, and \$14,935 of contributed rent (Note 9) for the year ended June 30, 2022. In-Kind contributions consist of \$59,137 donated goods, and \$20,343 of contributed rent (Note 9) for the year ended June 30, 2021.

Volunteers contribute significant amounts of time to program services, administration, fundraising and development activities; however, the consolidated financial statements do not reflect the value of contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Contributions

The Organization recognizes revenue from contributions, grants, and contracts in accordance with Accounting Standards Update ("ASU") 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made ("ASU 2018-08"). Accordingly, the Organization evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, the Organization applies guidance under Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606") (See Note 4).

If the transfer of assets is determined to be a contribution, the Organization evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the Organization is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If both items are met, the contribution is deemed conditional, and if both are not met, the contribution is unconditional.

Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met. Any amounts received before conditions have been met are included as refundable advances on the consolidated statement of financial position. There were no conditional contributions in 2022 and 2021.

Unconditional contributions are recognized when the unconditional promise to give is received. All contributions are considered to be available for unrestricted use unless restricted by the donor. Amounts received that are designated for future periods or designated by the donor for specific purposes are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Creativity Explored and Subsidiary

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

3. RECENTLY ISSUED ACCOUNTING GUIDANCE

ASU 2016-02 (Topic 842) – Leases

In February 2016, the FASB issued ASU 2016-02, which amends a number of aspects of lease accounting, including requiring lessees to recognize almost all leases with a term greater than one year as a right-of-use asset and corresponding liability, measured at the present value of the lease payments. ASU 2016-02 is effective beginning July 1, 2022. It is required to be adopted using a modified retrospective approach. Early adoption is permitted. The Organization is evaluating the impact of the adoption of this standard.

ASU 2020-07 (Topic 958) – Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

In September 2020, the FASB issued ASU No. 2020-07 (Topic 958) “Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets”, that increases transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. ASU No. 2020-07 requires the Organization to present in-kind donations as a separate line item in the consolidated statement of activities, apart from contributions of cash and other financial assets, and to disclose information regarding each type of contributed nonfinancial asset. The Organization adopted ASU 2020-07 on a retrospective basis beginning July 1, 2021. As a result of the adoption, the Organization segregated “in-kind contributions” as a nonfinancial assets on the consolidated statements of activities and added a related disclosure (Note 5).

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Organization recognizes revenue from its revenue-generating activities under FASB ASC Topic 606, Revenue from Contracts with Customers (Topic 606). The Organization determines revenue recognition through the following steps:

- Identification of the contract or agreement with a customer or grantor
- Identification of the performance obligations in the contract or agreement
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract or agreement
- Recognition of revenue when, or as, the Organization satisfies a performance obligation

The following provides detailed information on the recognition of revenue from contracts with customers:

Government Contract

The Organization recognizes financial support from GGRC through an agreement under which the Organization receives funding based on the hours spent by artists (program participants) at an agreed-upon funding rate (varying amount three levels). Detailed records are maintained on program participants and invoices are submitted to GGRC monthly. Revenue from the GGRC agreement is recognized as services are provided.

Art Sales

The Organization recognizes revenue from the sale of original art, net of supplies and related payments to artists, and art products, net of production costs, at the time of sale.

Leasing of Artwork

Advance payments for the use of artwork to be displayed in various facilities is recorded as deferred revenue, which is a contract liability. Royalty income is recognized as the artwork is displayed.

Gift Cards

Proceeds from the purchase of gift cards is recorded as deferred revenue. Revenue is recognized when the gift cards are redeemed.

Costs to obtain a contract or fulfill a contract are evaluated under the criteria for capitalization on a contract-by-contract basis. There were no capitalized contract costs at June 30, 2022 and 2021.

Creativity Explored and Subsidiary
Notes to the Consolidated Financial Statements
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4. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Income is recognized upon completion of the related performance obligation and when an unconditional right to payment exists. The timing of revenue recognition may differ from the timing of customer payments. Fees received prior to the completion of the performance obligation are recorded as deferred revenue on the consolidated statement of financial position until such time when the performance obligation is met. As of June 30, 2022 and 2021, deferred revenue was \$5,602 and \$6,892, respectively. Alternatively, a receivable is recognized when a performance obligation is met prior to receiving payment from a customer. The Organization had receivables related to revenue from contracts with customers of \$123,885 and \$192,312 at June 30, 2022 and 2021, respectively.

5. IN-KIND CONTRIBUTIONS

During the years ended June 30, 2022 and 2021, the Organization received legal, consulting, and other services and goods at fair value as follows:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Legal services	\$ 33,156	\$ -
Consulting services	10,000	-
In-kind rent	14,935	20,343
Other services	250	-
Goods	<u>800</u>	<u>59,137</u>
Total	<u>\$ 59,141</u>	<u>\$ 79,480</u>

<u>Description of Services and Goods Received</u>	<u>Utilization in Program/Support</u>	<u>Donor restrictions</u>	<u>Valuation Technique and Inputs</u>
Legal services	Management and general	None; used in operations	Valued at the lawyers' hourly rates, fair value
Consulting services	Program	in operations	Invoice amount, fair value
Other services	Program	in operations	Invoice amount, fair value
In-kind rent	Program	in operations	Estimated value of rent at inception of lease
Goods	Program	in operations	Invoice amount, fair value

6. SPECIAL EVENTS

Revenue from special events is reported net of direct costs and expenses. Net revenue (expenses) from special events consists of:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Gala revenue	\$ 165,875	\$ 108,020
Gala expenses	<u>(108,213)</u>	<u>(29,960)</u>
Net special event revenue	<u>\$ 57,662</u>	<u>\$ 78,060</u>

Creativity Explored and Subsidiary
Notes to the Consolidated Financial Statements
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7. EMPLOYEE RETENTION CREDIT

The CARES Act provides an employee retention credit (“ERC Credit”), which is a refundable tax credit. The ERC Credit is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were extended and expanded the qualified wage caps on the ERC Credit through December 31, 2021. Based on these additional provisions, the ERC Credit was increased to 70% of qualified wages paid to employees per quarter with a limit of \$10,000 per employee. The Organization is eligible for the ERC Credit for certain quarters of 2020 and 2021. As of June 30, 2022, grant receivable related to the ERC Credit was \$726,263. The Organization collected \$550,223 subsequent to year end. Management believes the receivable is collectible, no allowance for doubtful accounts was determined necessary.

8. PROPERTY AND EQUIPMENT

Property and equipment consist of:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Furniture and fixtures	\$ 159,530	\$ 159,530
Leasehold improvements	<u>601,717</u>	<u>601,717</u>
Total	761,247	761,247
Accumulated depreciation and amortization	<u>(598,478)</u>	<u>(564,983)</u>
Property and equipment, net	<u>\$ 162,769</u>	<u>\$ 196,264</u>

For the years ended June 30, 2022 and 2021, depreciation expense was \$33,495 and \$25,583, respectively and is included in depreciation and amortization expense in the accompanying statements of functional expenses.

9. BENEFICIAL INTEREST IN USE PROPERTY

In 2014, the Organization entered into a nine-year agreement to lease its primary facility at a below market rate. The Organization has recorded an asset to reflect a beneficial interest in the use of the facility, representing the estimated fair value of the beneficial lease at its inception. The asset is being amortized over the lease term to in-kind contribution and contributed rent expense. The beneficial interest in the use of facility is as follows:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Total beneficial interest in use of property	\$ 165,708	\$ 276,180
Less discount at 6% to net present value	<u>(12,329)</u>	<u>(27,264)</u>
	<u>\$ 153,379</u>	<u>\$ 248,916</u>

Rent expense of \$110,472 has been recognized as occupancy expense in the consolidated statements of functional expenses in connection with the beneficial interest in use of property for both 2022 and 2021. For the years ended June 30, 2022 and 2021, amortization of the discount was \$14,935 and 20,343, respectively, and is included in in-kind contributions.

Creativity Explored and Subsidiary

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

10. INVESTMENTS

The Organization invests its funds in indexed mutual funds and domestic equities managed by independent fund managers. At June 30, 2022 and 2021, investments are segregated as follows:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Money Market Fund	\$ 5,211	\$ 271,124
Fixed-Income	-	344,965
Equity Mutual Funds	1,115,213	573,286
Exchange Traded Funds	<u>333,793</u>	<u>340,413</u>
Total	<u>\$ 1,454,217</u>	<u>\$ 1,529,788</u>

11. FAIR VALUE MEASUREMENTS

The following are the major categories of assets measured at fair value on a recurring basis:

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Investments at Fair Value:				
Money Market Fund	\$ 5,211	\$ -	\$ -	\$ 5,211
Equity Mutual Funds	1,115,213	-	-	1,115,213
Exchange Traded Funds	333,793	-	-	333,793
Total investments at fair value	<u>\$ 1,454,217</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,454,217</u>

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Investments at Fair Value:				
Money Market Fund	\$ 271,124	\$ -	\$ -	\$ 271,124
Fixed-Income	344,965	-	-	344,965
Equity Mutual Funds	573,286	-	-	573,286
Exchange Traded Funds	340,413	-	-	340,413
Total investments at fair value	<u>\$ 1,529,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,529,788</u>

12. NOTE PAYABLE

In March 2021, the Organization received an unsecured note for \$329,647 under the U.S. Small Business Administration Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act. Outstanding borrowings under the note bear interest at a rate of 1% per annum and matures in March 2026. Proceeds from the note were restricted to payment of employee salaries and rent. The Organization received forgiveness in March 2022, which was reported as a gain on note forgiveness in the consolidated statements of activities.

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Beneficial interest in use of property	\$ 153,379	\$ 248,916
Creativity Explored programs	9,583	69,027
Licensing program	9,583	77,269
Gallery and marketing	9,584	42,269
Administrative	<u>6,250</u>	<u>25,603</u>
Total	<u>\$ 188,379</u>	<u>\$ 463,084</u>

Creativity Explored and Subsidiary
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

13. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Creativity Explored programs	\$ 67,686	\$ 99,888
Licensing program	59,444	53,125
Beneficial interest in use of property	95,537	90,129
Gallery and marketing	32,685	49,925
Administrative	19,353	16,125
Total	<u>\$ 274,705</u>	<u>\$ 309,192</u>

14. CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amount currently \$250,000 per depositor. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

At June 30, 2022 and 2021, 63% and 64% of support and program revenue was received through funding from GGRC, exclusive of income from the Subsidiary, respectively.

At June 30, 2022 and 2021, 98% and 67% of accounts receivable was from GGRC, respectively.

15. OPERATING LEASE

The Organization is obligated under a non-cancelable operating lease agreement for its main facility in San Francisco, California. The lease expires on December 31, 2023 and required monthly payments of \$6,600 in fiscal 2021, which will increase by \$200 in January 2023. The Organization has the option to extend the term of the lease for an additional five-years twice through December 31, 2033.

The Organization is obligated under a non-cancelable operating lease agreement for its second facility in San Francisco, California. The lease expired on August 31, 2022 and required monthly payments of \$9,800 in fiscal 2021, which increase annually by various amounts. In May 2022, the Organization extended the lease, and it now expires on August 23, 2026.

Future lease payments are as follows:

Year ending June 30:	
2023	\$ 202,798
2024	165,030
2025	126,286
2026	128,006
Thereafter	21,380
	<u>\$ 643,500</u>

Total rent expense for the years ended June 30, 2022 and 2021 was \$308,245 and \$289,930, respectively, and is included in occupancy on the consolidated statement of functional expenses.

Creativity Explored and Subsidiary
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

16. EMPLOYEE BENEFIT PLAN

The Organization has a defined contribution 401(k) plan for its employees. Employees can elect to participate at any time after employment and contribute up to 100% of their annual salary, subject to Code limitations. The plan also allows discretionary Organization contributions. For the years ended June 30, 2022 and 2021, contribution expense totaled \$12,820 and \$17,451, respectively, which is included in personnel on accompanying consolidated statement of functional expenses.

17. COVID-19

In March 2020, COVID-19 became a global pandemic and resulted in unprecedented actions by governments around the world to curtail the spread of the disease. These events have resulted in a high level of uncertainty and volatility in the financial markets, and have had an enormous impact on business and consumers in all sectors. The outcome and timeframe is highly unpredictable. The Organization is closely monitoring investments and liquidity to minimize the impact.

18. LIQUIDITY AND AVAILABILITY

The Organization has \$2,509,606 and \$2,040,023 of financial assets available within one year of June 30, 2022 and 2021, respectively. The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2022 and 2021 comprise the following:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Cash	\$ 181,318	\$ 455,415
Contributions receivable	58,923	76,676
Accounts receivable	123,885	192,312
Grants receivable	726,263	-
Investments	<u>1,454,217</u>	<u>1,529,788</u>
Financial assets available to meet general expenditures	2,544,606	2,254,191
Less amounts not available to be used within one year:		
Contributions receivable due over one year	-	25,000
Net assets with donor restrictions	<u>35,000</u>	<u>189,168</u>
	<u>\$ 2,509,606</u>	<u>\$ 2,040,023</u>

19. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure through March 13, 2023, the date which the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Creativity Explored
Consolidating Statements of Activities and Change in Net Assets
For the Years Ended June 30, 2022 and 2021

	2022			2021		
	Creativity Explored	Creativity Explored Licensing	Total	Creativity Explored	Creativity Explored Licensing	Total
SUPPORT AND PROGRAM REVENUE						
Art sales, net	\$ 153,599	\$ -	\$ 153,599	\$ 132,486	\$ -	\$ 132,486
Royalty income, net	-	27,173	27,173	-	45,617	45,617
Foundation grants	125,501	-	125,501	194,001	-	194,001
Government grants	88,848	-	88,848	141,805	-	141,805
Government contract	1,500,617	-	1,500,617	1,537,016	-	1,537,016
Corporate contributions	57,235	-	57,235	41,068	-	41,068
Individual contributions	322,781	-	322,781	215,812	-	215,812
Special events, net	57,662	-	57,662	78,060	-	78,060
In-kind contributions	59,141	-	59,141	79,480	-	79,480
TOTAL SUPPORT AND REVENUE	2,365,384	27,173	2,392,557	2,419,728	45,617	2,465,345
EXPENSES						
Program services	2,088,071	85,698	2,173,769	2,024,053	65,595	2,089,648
Management and general	257,871	-	257,871	196,697	-	196,697
Fundraising	441,399	-	441,399	336,945	-	336,945
TOTAL EXPENSES	2,787,341	85,698	2,873,039	2,557,695	65,595	2,623,290
OPERATING LOSS	(421,957)	(58,525)	(480,482)	(137,967)	(19,978)	(157,945)
OTHER INCOME						
Other income	13,192	-	13,192	526	-	526
Grant income - employee retention credit	726,263	-	726,263	-	-	-
Return on investments	(123,474)	-	(123,474)	40,369	-	40,369
Gain on note forgiveness	330,550	-	330,550	341,900	-	341,900
TOTAL OTHER INCOME	946,531	-	946,531	382,795	-	382,795
CHANGE IN NET ASSETS	524,574	(58,525)	466,049	244,828	(19,978)	224,850
NET ASSETS - BEGINNING OF YEAR	2,510,120	(204,025)	2,306,095	2,265,292	(184,047)	2,081,245
NET ASSETS - END OF YEAR	\$ 3,034,694	\$ (262,550)	\$ 2,772,144	\$ 2,510,120	\$ (204,025)	\$ 2,306,095

See independent auditor's report and accompanying notes.